

AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION

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Good evening. Thank you, Dominic; and let me thank all of you for coming today. It is my great pleasure to be here to discuss one of America's most important trade and foreign policy goals: China's WTO accession and permanent Normal Trade Relations.

ONE-WAY CONCESSIONS

In the most basic sense, when we consider China's WTO accession and permanent Normal Trade Relations, we are facing a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement also strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton has sent to Congress, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

That is the only policy issue now before Congress. China will enter the WTO. It will be able to sell in the American market regardless of our debate. The vote Congress takes in a few weeks will simply be on whether we will win the benefits of the agreement we negotiated -- which as I will note later, extend to virtually every walk of life, with specific commitments opening China's markets to everything from films to information technology, hang gliders and tropical fish -- or on the other hand, turn them down and give them to the rest of the world.

DEEPER ISSUES

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so. But it is also, I believe, appropriate to think about the wider implications of this agreement. Because when California's Congressional Representatives come to the floor to speak on the China PNTR question, they will be discussing not only an economic opportunity for California's movie studios, farmers and manufacturers, but a strategic question of central importance to our country, and most of all to the young people who

will graduate from California's universities and high schools later this spring.

The reason for this is simple. China is the world's largest country. Over the past decade, it has been the world's fastest-growing major economy. And the future course of our relationship will have great bearing on American security and strategy in the 21st strategy.

Our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension. These often dominate the China debate, and many ask why we should proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. It is fair -- in fact necessary -- to judge the WTO accession in their light. And we can begin to see its fundamental importance if we trace back to its origins the institution China now seeks to join.

AMERICAN POSTWAR STRATEGY

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. And its creation in 1948 reflected the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war.

One of the failures they saw in the 1930s was the inability of global leaders to resist a cycle of trade protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which deepened the Depression and contributed to the political upheavals of the era in Europe and the Pacific. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Thus the GATT was one in a series of related policies and institutions that have served us well for nearly six decades: collective security, reflected by the United Nations, NATO and our Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Stepping back for a moment, half a century of experience fully vindicates the commitment to open markets we made fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. Social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And as Truman and his colleagues predicted, in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

Our Asia policies today reflect the fundamental principles of postwar American strategy:

- Our military presence in the Pacific, and our alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the strongest guarantees of a peaceful and stable region.
- Our advocacy of human rights, over the years, has helped to support the movement toward democracy and the rule of law in much of Asia.
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that can accompany economic suffering.
- And our Asian trade policy is helping to build a more open region with greater prospects for sustainable growth in the years ahead: since 1992, we have created a regional framework for open trade through APEC; concluded nearly 300 specific market-opening agreements worldwide and almost 100 in Asia, including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; and moved toward normalized economic relations with Vietnam, Laos and Cambodia.

CHINA FROM REVOLUTION TO REFORM

China, of course, took a very different road after the war.

With the revolution in 1949, it shut the doors it had once tentatively opened to the world. Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies – destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. And all this had international effects as well: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China's rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China's domestic reforms since the 1970s have helped undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. This is a trend of immense importance most of all to China's people, but also to American interests in an open, stable and peaceful region. And thus, American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade

Relations in 1979, to the more recent agreements on market access, intellectual property, textiles and agriculture -- has worked with and helped to deepen Chinese reform as they secured specific American trade interests.

The intellectual property issues are a case in point. Five years ago, China was the world's leading manufacturer and exporter of pirated movies and CDs. We identified over sixty separate factories producing these products. We threatened over \$1 billion in sanctions; we won a series of legal and enforcement reforms in 1995; and we went further with an Action Plan in 1996. Under these measures, China closed over 64 CD and CD-ROM production lines, destroyed the masters and molds used to produce these products, seized millions of pirated works, and have continued to investigate and close illegal operations since.

As a result, we have substantially stopped pirate manufacturing and export, and are now pushing for further action on retail piracy. This is an advance of fundamental importance to American interests. But it is also an advance in a broader sense, helping -- as has every step in our trade policy since 1972 -- China to develop the habits and values of open markets and the rule of law.

THE WTO ACCESSION

The bilateral agreement we reached with China last November on WTO accession is the culmination of this work. It is a comprehensive agreement, covering industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports. To offer you a look at the details:

- In manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. California's information technology industry will see tariffs on computers and other high-tech equipment fall from 13.5% to zero. China will also eliminate all quotas and discriminatory taxes. And of critical importance, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose.
- In services, China's markets are now among the world's most closed. With our agreement, China will open distribution and telecommunications to direct foreign participation for the first time since the 1950s, financial services, insurance, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. Our agreement also makes China one of the very few countries making specific market-opening commitments for movies and sound recordings, with studios now able to export 20 films a year on a revenue-sharing basis to China, and new distribution rights for videos and sound recordings.
- In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by

2004. This affects every product from California's oranges and grapes, where tariffs drop from 40% to 12%, to Maine lobster. China will also expand access for bulk agricultural products such as cotton, rice, wheat and others; end import bans; cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.

- The agreement also gives American workers and businesses stronger protection against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. It addresses state enterprise policies, forced technology transfer, local content, offsets and export performance requirements. It provides, for a 12-year period, a special remedy to discipline market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing our right to use a special non-market economy methodology to address dumping for 15 years after China joins the WTO.

All these commitments are fully enforceable: through the trade laws we have already used to win passage and enforcement of copyright laws; through WTO dispute settlement -- meaning that for the first time ever, China has agreed to subject its decisions on these issues to impartial international review; through periodic multilateral review of China's adherence as well as multilateral pressure from all 135 members of the WTO; through increased monitoring by the U.S., with the President's request for a tripling of funds for China compliance and enforcement; and through other mechanisms such as the special anti-dumping and anti-import surge remedies.

PERMANENT NORMAL TRADE RELATIONS

China will join the WTO regardless of the outcome of our debate. What Congress must decide is whether we will accept the full benefits of their accession and the historic agreement we negotiated, or simply give them to our competitors. And that brings me to permanent Normal Trade Relations status.

By contrast to China's historic set of commitments, we make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our trade laws.

We have only one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. In terms of our China policy, this is no real change. NTR is simply the tariff status we give to virtually all our trading partners; which we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers and factory workers, as well as service providers, would be left behind.

WTO ACCESSION AND BROADER ISSUES

That is reason enough for our commitment to secure permanent NTR for China. But the costs of retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security. And when we look beyond the details of this historic agreement to its deeper meaning, we see that retreat would fundamentally threaten these American goals. As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet. As President Clinton has observed, in the new century, liberty spreads by cell phone and cable modem; with China's Internet usage growing from 2 million to 20 million between 1998 and 2000, imagine what this can mean.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather economic opening to and engagement with the world, and ultimately development of the rule of law, inherent in the initiative President Truman began in 1948.

That is why some of the leading advocates of democracy and human rights in Hong Kong and China -- Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party -- see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. Over thirty years, as China has reformed its economy and opened to the world, its stake in the region's stability and prosperity has grown. Economic reform has thus helped move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we disagree with China we must act with candor and firm assertion of our interests and values – as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as we are doing at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

But this is only part of our approach. As Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20th century:

“We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights.”

In this spirit, as we insist upon our rights, we also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

CONCLUSION

Each step in our China trade policy since 1972 has rested upon concrete American interests; promoted reform and an emerging rule of law within China; and better integrated China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our Pacific alliances and military commitments, in tandem with our advocacy of human rights, and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world.

And China's WTO accession, together with permanent NTR, will be the most significant step in this process for many years.

That is the opportunity before us. These are the stakes. And that is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.